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CONGESTION AND RENTS

BY BERNARD J. NEWMAN,

Executive Secretary, Philadelphia Housing Commission.

What is meant when the term congestion is used is generally understood. Usually it is defined as more than an average number of people living in a neighborhood. In a more limited sense it means more than a legal number of persons occupying one room. Congestion as a term applied to the housing of the people means simply too many inhabitants living within a circumscribed area to enable them to obtain the most wholesome living conditions. As here used it does not refer so much to room overcrowding, or to the overcrowding of buildings upon the land, as to the massing of people within restricted areas thereby intensifying the problems of such areas. It varies in its numerical listing, for what would be a moderate congestion in a city like New York, hampered as it is by natural barriers, would be outrageously high for a community like Philadelphia and Chicago; just as a degree of occupancy acceptable for these latter cities would be abnormal for smaller towns. The term, therefore, is variable in so far as the actual number of people is concerned but it is fixed in so far as it applies to the grouping of people in a neighborhood in such numbers as to increase the moral or health risk or the cost of living.

On the other hand, an accurate definition of rent is less prevalent. Usually it is defined as the price paid for the privilege of shelter under a given roof or within a given apartment. Thus many compare the outlay per house while others contrast that per room and on such basis judge the relative exorbitance of one area over another. Such comparisons mean nothing and rent interpreted in these terms has no economic standing. Rent cannot be contrasted with income without taking into consideration all that it purchases. What would generally be called a low rent might in reality be excessively high. Thus, a room leased for 50 cents a week sounds low, but if it purchases an inner room, in a dumb-bell tenement, it is excessively high no matter what proportion of the total income it may chance to be. Or a house of six rooms, without toilet facilities and with a water

supply taken from a pump polluted by neighboring cesspools, though it may be obtained for \$5, or about one-eighth of the tenant's monthly income, may be a higher rent than the \$10 a month paid for a neighboring property of the same size but well drained and with ample water supply. So, too, rent though stated at a higher figure may yet be actually lower owing to the proximity of the house to the workshop and to places of amusement. Rent is the price one pays for the shelter he gets plus the conveniences that aid healthy living, produce economic efficiency, and facilitate wholesome sociability. Its comparison with income cannot be made on the basis of the rent receipt to the pay envelope, but on the basis of the habitation, conveniences and benefits secured as contrasted with the total income. In short, no definite understanding of the effect of congestion upon rents can be grasped unless there is a full comprehension of the fact that rent is a purchasing medium capable of securing, without any change in its monetary reading, helpful or baneful conditions.

As a purely business proposition, rent is determined by three major factors: (1) The cost of buildings, including both the land and house; (2) economic and social conditions; and (3) the number of houses available to meet the demand. It matters very little whether the site is in an area where the density of population is ten or ten hundred per acre, these three factors control rents. Analyzing their influence brings out the accuracy of this postulate.

It is the first of these upon which congestion is most influential. Here two sets of costs must be considered. One is the initial outlay that attends the purchase of the ground and the erection of the building, and the other is the fixed charges that arise from running expenses. That is, the price of the land, the cost of material, the character of the plan determining the amount of materials needed, the labor in designing and in construction, inspection service, legislative enactments determining the fire and health hazards for which provisions must be made, all influence the first investment needed to construct the house. To these costs are added those that arise from municipal improvements such as sewers, water mains, roadways and like investments that are financed by the community but are transferred to the individual and become charges against the site. In a measure, these dual expenses can be considered fixed to the owner. No matter how fluctuating values may be his is a total outlay and charged either at the time of building or at the time of

purchase. His return is upon this outlay, plus other expenses to be mentioned shortly, in the form of rent or increment, either or both. As with the possibility of a gain there goes the possibility of a loss, so the increment may become nil while the rent, under environmental changes or economic conditions, may become, figured on an interest return on the initial investment, only a safeguard against a larger loss. The rent, while initially determined by the owner when erecting his house or by the purchaser when buying, becomes ultimately less a matter of individual control and more a matter of environmental influence. At the time of acquisition, the owner determines the return he expects and adjusts his rent accordingly. After this step has been taken, he relinquishes in a large measure this power and becomes subject to other factors over which he has comparatively little control. It is this element of uncertainty, the guarding against the wrong turn of the neighborhood, that in a large measure creates the speculative character of real estate operations. But rent also depends upon running expenses. Into this factor enter a number of influences among which are taxes, insurance, water rates, in most buildings, lighting and heat in some, but in all, management and repairs. Management varies in its character but is also dependent upon the type of building, becoming complex in multiple buildings where cleaning and janitor service and attendants total sums that make noticeable impressions on the expense account. In smaller buildings the charges for supervision are less though the site risks are greater, determining more frequently the rental possibilities of the property and thus affecting the yearly rental income. In all the tenant risk enters, reduced to a minimum where a reliable family occupies the house or raised to a maximum when an unreliable family is the occupant. Perhaps the largest single item of expense in the average property used for renting purposes, with the probable exception of taxes, is the upkeep or repairs. This varies, though in most buildings erected by jerry-builders it has become a fixed charge; while in old buildings, owing to changes in city ordinances and laws, the improvements necessitated often absorb from six months' to a year's gross rentals.

The second major factor controlling rents finds root in economic and social conditions. Here the variety and location of factories, proximity to transportation and amusements, racial segregation and antipathy, the family income and their physical needs and social

aspirations, industrial depression, panics and good times all play an important part. Lax business management and absentee landlordism, or a landlordism seeking the largest returns but deputizing control to real estate brokers, and insisting upon a management that will mulct the property of its highest net return, also play a part. Occasionally, under the inspiration of a conspiracy among brokers to maintain rents, abnormal conditions are developed and despite normal influences working to adjust the prices charged, higher rates are obtained.

As a rule, the logical result of the working of the foregoing factors upon rents would be to increase the amount exacted from the tenants. It would be quite natural to have such the case. The renting of property is a business with the sole object to get the highest possible return upon the capital outlay and with the least amount of supervision in the getting. The very pressure of this desire is responsible for the maintenance of a check upon exorbitance, for it creates a competition among owners, stimulates building and throws into the market a greater supply of houses, thereby creating the third factor already mentioned. Building booms, which come to every town, are the natural responses of loose capital to the call of this investment field. Such competition brings the house under the influence of the law of supply and demand. In some communities, as in Philadelphia, other influences enter. A type of house requiring relatively a small outlay of capital, a well-organized building and loan association system, with its easily disposed-of first and second mortgages, the legitimatizing of such for loans by banking laws, a systematized form of operative building and a simple procedure in obtaining necessary funds for construction purposes, all encourage speculative building and overbuilding. By putting the erection of houses upon a comparatively speculative basis, a group of operators have been called into the field who look for their profit not from rentals but from quick sales. They place a product on the market independent of rental considerations. They pay their expenses by creating mortgages and making transfers with a small cash bonus for themselves. The lure of speculation is magnetic and results in an oversupply of houses. This has the direct effect of throwing into the field of competition more houses than are needed to supply the demand. Wherever a like situation arises a check is established

upon the abnormal encroachment, other than changes economic conditions would cause, of higher rents for like accommodations.

These three factors act upon properties to determine rentals. They are the normal influences at work in every community where normal conditions prevail. They act even under abnormal conditions in the constant warfare carried on by invested capital to earn the largest possible return. The housing reformer, under the present economic system, welcomes this play of forces and has a practical interest in seeing that the result is such as to enable a legitimate return to be secured on the investment made. Private capital and individual initiative in housing erection can only be secured when the result obtainable is worth the effort to obtain it. Whenever any combination of causes mitigates this return there are one or more things bound to happen. As a result there is a house famine, or a crowding of two or more families into the space formerly occupied by one, thus manufacturing the tenement, or a change in the character of occupancy of homes, converting the privacy of the dwelling into the promiscuity of the rooming house, intensifying in both cases the moral and health problem of the people concerned.

These are the factors that primarily determine rent. It can readily be understood that the first two respond more acutely to congestion of population. Especially is this the case with the first or that which is included in the cost of the site and the building plus the upkeep and running expenses. A discussion of the second factor is hardly worth while here since it is so closely associated with the causes of congestion. With the present system of taxation, the more people are herded together the higher the site value becomes. Certain given areas under observation have, within recent years, advanced several hundred per cent on account of the concentration of population about them. This increased cost necessitates a greater outlay simply for the ground upon which to erect the building. Typical instances of this increased cost are found in selected areas in every city where such values are so great that it is financially unprofitable to erect any other than the multiple type of building. Added to this handicap is the outlay called for by a larger tax assessment, an increase that is not temporary to be met at one time and then charged into the initial cost, but one that runs on from year to year and for which provision must be determined in advance so

that whatever may be the structure erected it must provide a sufficient income to carry it in the yearly charges. Thus, before a single shovel has been put into the ground toward the future building, the overcrowding of people necessitates a larger capital to correspond with the larger costs. The site determines the minimum building costs and the character of the house, creating a larger risk and restricting the number who can take it. But the effect does not stop here. With the larger building, the cost of management is raised, while the outlay for upkeep is correspondingly larger. Moreover, certain typical results in the construction of the building follows. The health risk and the fire hazard are increased through the height, proximity, and occupancy of many rooms under one roof. Hence, legislators, without scientific data, create standards of structure, fire-proofing and fire-escapes, girders and floor stress, often four and five times beyond actual safety requirements, but justified on the ground that lax inspection and the evasions of the jerry-builder force these added precautions. These, together with the plumbing requirements, provisions for light and ventilation made necessary by the increased occupancy, fix upon the buildings an added cost that further affects the amount of capital invested upon which a profitable return must be secured. Thus the overcrowding of people on the land forces added stories to the building, adding materially to the cost per cubic foot and necessarily establishing the financial basis for fixing the ultimate rental return. Moreover, when it is borne in mind that rent is measured not so much in terms of rooms but in terms of the benefits that produce healthy, moral and comfortable living conditions, the financial increase of rents in multiple buildings is added to by the lesser number of cubic feet of air space in the apartments, the smaller floor area and the restricted light and ventilation. These things are not necessary accompaniments of multiple dwellings but with the cost as now assessed and cost factors multiplied by unscientific handling of congestion problems they are the actual concomitants of such construction.

Other factors also enter when too many people occupy a given area and thereby raise the actual rents. These come through municipal improvements forced by the added traffic and service rendered to the individual by the community. The sewer system has to be enlarged, water mains likewise have to be enlarged, fire protection increased, high pressure stations built to pump an increased volume

of water and to raise it with adequate pressure to the floor heights. Health regulations and inspection, police supervision and the various ramifications of civic life made necessary by crime and the care and control it obligates, including even added street lights and shorter police patrols, all add their mite to the sum total of carrying costs. Moreover, other municipal costs which have their reflex upon the property holder enter, such as traffic regulations and facilities, the delays occurring on streets laid out to carry a normal amount of traffic but, under the increased congestion, obliged to serve 100 where before they had served 1, the wear and tear on the pavements, calling for more costly surfacing and more frequent cleaning, all of which are normal services rendered in the large by each community for all its citizens but intensified when the population becomes concentrated within restricted areas. The increased expenditure from each is little, compared with the site increase in costs, but they all help to become a consequential factor when taken in the bulk. Added to these increases are the risks forced upon the tenants in the form of reduced room space, presenting in the growing family its moral dangers, and the exposure to the spread of contagion accompanying the common use of halls and stairs and, as is most frequently the case, of toilet facilities, with all the expenses attendant upon such. The rent, in such areas, purchases fewer of the conveniences and safeguards that make for wholesome living. To sum up, congestion enhances values, enlarges requisite investments, reduces both the available floor area within the economic reach of the tenant and the returns obtainable in personal well being and comfort.

It must be remembered that this analysis of the effect of congestion upon rents is made on the basis of building operations and structural changes forced by the effort to adapt an area to a larger population than should normally occupy it. Many individual houses at one time occupied by families of wealth and rented at a price largely enhanced by the exclusiveness of such, under the influence of a change in occupancy which brings in an undesirable element, decline in rental value. Many brown-stone fronts in our large cities have lost their investment attractiveness to their original purchasers through such population transformation, and instead of returning a gross rental of \$800 a year, now return only \$450. This does not, however, alter the facts as previously set forth; it only emphasizes the controlling influence of supply and demand. Here the demand

for the private residence in this particular neighborhood at the larger rental fell off entirely. The encroachments of the multitude upon the exclusiveness of the few became too ever present until the former finally won out. Consequently another type of occupancy had to be catered to, for which the buildings were not structurally adapted. Under the new condition economy of space, so necessary in order to obtain the full rental value of the capital invested, could not be secured. The investor faced a loss anyway, and rather than sacrifice all involved in the building itself, chose to salvage a part, actually writing into his loss account the difference in capital outlay equivalent to the amount represented by the difference in rent.

This illustration is cited in order to show that the loss is one of judgment, just as in any speculation that turns out poorly no matter if it is stretched over a long period of years. As a matter of fact there are comparatively few cases where the gross loss falls upon one person. The transfers of title are so many that the loss is distributed. It is the supply and demand, modified by social and economic conditions, therefore, that serve to check too abnormal an increase in rents as a result of the increased cost of building.

The fact of this is borne out further by the effect which improvements have upon increased rents. It is commonly believed that every sum expended upon a property to better it must earn its own return. Very little data are available, but that which are clearly prove that such expenditures are a clear outlay in so far as the owner's financial return is concerned, unless there are too few houses for rent in like neighborhoods to affect the market. A questionnaire, recently sent to about fifty cities, brought forth data which showed that improvements increased rents when there was a house famine and they had no effect upon rents when the supply more than met the demand. The best figures available came from Philadelphia. There, for 1,332 houses, where the average cost of improvements approximated from six to eight months' rentals, only on 8.4 per cent were the rents increased, while in 1.2 per cent instances they were reduced. It must be clearly borne in mind, however, that these changes were in improvements that did not add one more room space to the houses. Invariably in the latter case the additional room was accompanied by an increased rental.

If the foregoing analysis of the factors that control rents is correct, and if the effect of congestion is as has been set forth, certain

definite changes cannot be introduced too quickly. In the first place, the causes that produce congestion need to be brought under control. Comparatively little effort has been made in this direction. The concentration of people upon limited areas has been taken as inevitable. Under a proper municipal program it is not inevitable. When present, it is only the tangible evidence of communal neglect and the lack of proper planning. In the second place, legislation controlling building construction must be reduced to a scientific basis. Pseudo reformers who secure legislative restrictions or establish standards by guess work must be persuaded to do some mathematical calculation upon scientifically acquired data. When the cost of materials and the amount to be used play so large a part in the extra cost of building, all guess work as to what should and should not be ought to be ruled out. Municipal inspection service with adequate penalties to make it effective must be placed upon an efficient basis so that the honest builder and owner shall not be penalized by stringent structural requirements because the unscrupulous contractor is likewise engaged in construction work. Where political conditions make it unfeasible for municipalities to go into the building of homes, a form of municipal governmental loan at low interest and easy payments must be made available so as to offset the exorbitant rates now charged to operative builders, thereby reducing proportionately the initial cost. To further reduce the carrying cost of the house, preferential taxes must be inaugurated, while an adequate zoning system with restricted uses of tenantry in given areas must be established, thereby controlling the neighborhood changes that are now so largely responsible for the deterioration which eventually produces the slum.

Without these, no matter what other form of housing betterment is attempted, rents will not be adjusted to the point where they will give the investor his fair share and the tenant his just return at one and the same time.